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## The aspects of employing of offshore companies in industrial corporations

Vaidas Gaidelys<sup>a\*</sup>, Rita Remeikienė<sup>b</sup>, Ligita Gasparenienė<sup>c</sup>

<sup>a, b, c</sup> *Kaunas University of Technology, K. Donelaičio g. 73, LT-44029 Kaunas, Lithuania*

### Abstract

Having created the internal market of the EU the companies, which work in the internal market of the EU, met the new challenges in the sphere of planning of taxes. Here the redistribution of the companies, which work in offshore centers, took place subject to the markets of export. Before founding an offshore company it is very important to choose an offshore center (considering its specialization) according to wish of the founder of the offshore company. Some jurisdictions are traditionally regarded as jurisdictions of the holding, others are recommended to international trade firms, banks, trust, insurance companies (for example, for captive insurance, i.e. insurance inside of the company or to reinsurance companies).

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**Keywords:** Offshore companies; industrial function; planning of taxes; offshore centers.

### 1. Introduction

Due to the processes of globalization all over the world and in Europe business meets the issue of planning of taxes so in order to survive while competing industrial corporations optimize their work and accentuate planning of taxes. Hereby only redistribution took place in the market. If before the European Union was created the most business groups had been able to use the companies exporting to any country, after the internal market of the EU was created the employment of offshore companies in the internal market of the EU had become difficult. Therefore redirection towards the external market of EU, especially towards China, took place.

\* Corresponding author. Tel.: +37069846646.

E-mail address: [Vaidas.Gaidelys@ktu.lt](mailto:Vaidas.Gaidelys@ktu.lt)

The most of authors advise the businessmen, who are choosing an offshore center, to regard to particularity of their business. According to such specialists of offshore companies registration as A. Arestrachov and M. Arsenev, before an offshore company opens it is necessary to take certain factors into account (Astachov, 2001):

1. It is not recommended to open offshore companies in the countries, which draw special attention of political structures (Tauni Sinclair-Ngatiprov, 2008).

2. Development of means of communication, language and juridical base are considered to be the most important factors. If employment of professional consultants is intended the best place of doing that is the country, where labour from abroad are allowed to cross the border with no restrictions (Palan, 1998).

3. Financial factors are important as well (Blackman, 2001).

Having analyzed the information, which is presented above in the tables we express the opinion that offshore centers are possibly divided into four groups (Dovidka, 2002):

1. The countries, for example the Bahamas, with no taxes and no requirements to give reports on the performance.

2. The countries of greater respectability, for example, Man Island, which require financial reports from offshore companies (Пеннеп, 1999).

3. The countries, for example, Cyprus, where international agreements about avoiding of double taxation is held for those offshore firms, which participate in international business (Апель, 2002).

4. The countries, for example, Switzerland, which specialize in a certain sphere of activity (finance, investments and others), (Кабир, 2002).

With regard to the present situation connected with offshore companies working in offshore centers the general aim of the work is the potentialities of taxing of offshore companies working in offshore centers in the context of the European Union.

Methodology includes systematic comparative and structural analysis of academic economic literature, logical analysis.

## 2. Offshore Companies in Industrial

It is remarkable that the name of an offshore company must be confirmed by the institution, which registers companies (in some cases some names might be confined) and check whether the same or similar name could be registered in the same offshore center. (Konik, 2002). Dubbing of the names can cause detaining of foundation of an offshore company (Sherman, 2001). Some authors divide offshore companies on offer into three types:

1. The companies, which have a name but do not have opened account in the bank. They are new companies, which do not perform any commercial operations and as a result have no liabilities towards third persons (Arestrachov, 2002).

2. The companies, which are allowed to choose the name. It is remarkable that the name of an offshore company must be confirmed by the institution, which registers companies (in some cases some names might be confined) and check whether the same or similar name could be registered in the same offshore center. (Trocenko and Karmanova, 1995).

3. The companies, which have already been performing and which are needed considering respectability (Komisar, 2001).

In our opinion, besides tax and other concessions, confidentiality is considered to be especially popular criterion among businessmen (Lithuanian as well). That means that information about company's performance, its holders, available bank accounts, flow of money and others is close. According to S. L. Kabir, the criterion of credibility and economical security also possibility to control finances through offshore companies play not only important but also decisive role. The most authors name confidentiality as an advantage of offshore business although some of them maintain that confidentiality as well as use of favour of formal directors and sharing stocks with no nominal price named would attract „grey“ funds (Kabir, 2002). Nowadays the attempts to buy the stocks of important strategic places using offshore companies (in Lithuania as well) are being made and so not only the control of the company is influenced but also the decisions, which are taken by the country, where the place is located.

According to the other authors, in order to keep confidential it is purposefully to create a virtual office. Due to such office the offshore company is regarded as more respectable, because the companies providing such services

usually have their branches outside offshore zones. (Dovidka, 2002). For example, while providing such service as sending parcels by mail any of such firm's branches, which perform in non-offshore zones, acts as a moderator. It helps offshore company to look as if it was non-offshore (Bernatonyte, 2003).

The other authors maintain that payments of local directors, charges for a local juridical address (if it is required), total information about the work of offshore company (it is not necessary) also a favour of secretaries (if they are needed) must be counted in (Sherman, 2001). S. L. Kabir divides expenses on establishment of an offshore company into two groups: 1) primary expenses of the funds are outlays on buying of the company, which has already been founded, or on establishment of an offshore company in an offshore center; the contribution to establishment of the company (authorized capital charge) if it is required by juridical base of the offshore center. 2) expenses on keeping and operating of an offshore company are annual registration fee, annual fee, which change taxes in an offshore center; charge for secretarial services (keeping and working of registered office, favour of notary, payment of secretary and lawyer). The fourth appendix contains the prices of extra services, which can be provided while founding offshore companies (Snieska, 2004).

Some years ago the persons, who wandered how much the establishment of an offshore company costs, got the answer from a famous economist Milton Grundy, which was as follows: "if you are interested in the price it likely seems to be too expensive for you". Rephrasing this statement it is possible to maintain that the person gets as much as one pays for (Sherman, 2001).

According to some authors, the firms, which make or realize the profit on their own, should transfer it to the countries, which does not have a drastic system of taxing, as dividends (because they are not usually taxed) or royalty income, because agreements about avoiding of double taxation are usually signed in such countries. Aiming at transferring the profit to any offshore center it is advisable to do it having signed internal contracts between firms to agree about the form of internal credits and interests (Gorbunov, 2002).

Due to advanced technologies potentials of using of offshore companies have expanded. It is noticed not only in western countries. At the beginning of 2001 the authorities of Russian city Jaroslavl arranged the programme „Official support of information technologies 2001–2003". According to L. Konik, this programme was created for developing of offshore programming (having founded a special offshore center) implementing in enterprises also for marketing.

Almost all offshore companies (except pure holdings) in the early stage of founding (Snieska, 2001) open accounts in various banks. A. Arestarchov ir M. Arsenev maintain that while performing every offshore company must follow the two main rules:

- To avoid performing in the territory, where it is registered.
- To open accounts in non-offshore banks.

However, the same authors maintain that the second rule is not followed in practice – offshore companies can open unlimited number of accounts in any bank all over the world or even in several banks (Arestarchov ir Arsenev, 2002). According to some authors, accounts can be opened by the director of an offshore company or an attorney (not all the banks allow) (Paas, 2010). Having opened the account the person gets the number of the account, the codes, the passwords and the program, which enables to control the account online (Gaidelys, 2003). According to the same authors an offshore company can also open an anonymous account as a broker. It is a special one, because the names of owners of the account are not recorded in any written papers of clearing house and they are not disclosed even to the founders of an offshore company. With reference to the collected and analyzed information it is possible to define the following important features of the account (Guzavicius, 2006).

Some authors maintain that while selecting a bank it is necessary to take into account whether the contract of the current (reported) account supposes paying of bank interests for an average balance of the account and what sum is paid; the charge for international and local transactions and fees for cashing are also important. (Stungys ir kt., 2001).

The other authors treat industrial function as one of the most popular functions of employing of offshore companies (Buciunas, 2011). Here businessmen may wander what extent of production can be possibly achieved with limited amount of resources. Practically it depends on available technologies and the level of technical knowledge. However, in the specific case, with certain amount of resources and certain level of knowledge only certain (limited) amount of product can be released. L. S. Kabir maintains that interaction between the amount of

resources, which are used in production, or extents of production and the extents themselves are called industrial function:

$$I \times \text{SUM} \{X_{ij}\} = Q_{xij}, \quad (1)$$

where:  $X_{ij}$  -  $i$  - amount  $j$  - resources;

$Q_{xij}$  – extent of production with a steady amount of resources;

$I$  – the level of technologies, which are used in business, and technical process;

So, according to L. S. Kabir, industrial function shows maximum extents of production, which might be achieved with one or another amount of resources and a certain level of technical knowledge.

The other authors maintain that due to the fact that the services, which are provided in offshore companies, enable to reduce taxes with no breaking the law extra actions, especially illegal, seem to be very risky (Blackman, 2001).

In our opinion, nowadays the attempts to buy the stocks of important strategic places using offshore companies (in Lithuania as well) are being made and so not only the control of the company is influenced but also the decisions, which are taken by the country, where the place is located. The same situation took place in Russia in the field of the market of telecommunication, when one group bought the stocks of the largest companies of telecommunication using offshore companies and so influenced the market of this field. (Konik, 2002).

### 3. Results

Having analyzed the collected information in article it is possible to maintain that after the internal market of the EU was created essential redistribution between offshore territories and the companies, which perform exporting and importing through them, had taken place. Because Law Enforcement Background was changed. Before choosing an offshore center it is necessary to know that one of the main disadvantages of offshore centers is the situation that according to the juridical acts, which are hold in the most offshore centers, the owners of the firm, who take tax concessions, are not allowed to live and operate in the territory of the offshore center. The more topical issue is that different persons often take the capital out of the country aiming at settling abroad. The place to settle they wish might be, for example, the Bahamas, Cyprus or Seishel islands. The authors maintain that „foreigners, who belong to those offshore companies, which are not controlled from Cyprus can have tax concessions“. However, the opportunities, which provide offshore centers, are considered to be the basis of offshore business. The offshore centers, which are registered in Belize, Delaware (the USA) and others have been used more often recently.

### 4. Conclusions

- Besides tax and other concessions, confidentiality is considered to be especially popular criterion among businessmen (Lithuanian as well). That means that information about company's performance, its holders, available bank accounts, flow of money and others is close;
- Due to advanced technologies the potentials of employing of offshore companies have been expanding in different business spheres;
- An offshore company can also open an anonymous account as a broker. It is a special one, because the names of owners of the account are not recorded in any written papers of clearing house and they are not disclosed even to the founders of an offshore company.
- The accounts of offshore companies would become the weakness while aiming at identifying the fact of dependence of an offshore company;
- Nowadays the attempts to buy the stocks of important strategic places using offshore companies (in Lithuania as well) are being made and so not only the control of the company is influenced but also the decisions, which are taken by the country, where the place is located.

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